



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 11/7/2008

GAIN Report Number: FR8020

France

Bio-Fuels

Changes Proposed in French Biofuels Incentives 2008

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Report Highlights:

Although the French government recently confirmed its objective of a 7 percent incorporation rate of biofuels into transportation fuels by 2010, it is not likely to increase this target. Moreover, it is expected to reduce significantly, if not eliminate, the fiscal incentive for first generation biofuels by 2012. At the same time, second-generation biofuels are receiving increased attention.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Paris [FR1]
[FR]

Summary

In light of concerns about first generation biofuels (see [FR8012](#)), and financial constraints, the GOF proposed a 2009 budget bill to the Parliament that includes a provision drastically reducing the tax incentive for biofuel consumption and eliminating it in 2012. The bill is currently being debated in the Parliament. The National Assembly recently voted on an amendment that is less severe than the GOF proposal and would not completely eliminate the tax incentive. The Senate will vote on the bill in the next few weeks. The farm and biofuels industry reacted negatively to the original proposal.

On the other hand, the formerly announced target of 7 percent incorporation rate of biofuels into fossil fuels in transportation by 2010 was recently confirmed by the GOF, and its achievability reiterated by the French Agency for Environment and Energy Control (ADEME).

The first second-generation project was officially launched in September 2008, and is targeted to start its commercial industrial phase by 2020. Named Futurol, this project focuses on cellulosic ethanol processed through enzymatic and yeast fermentation of a wide range of biomass raw materials. In a recent report, the French grains and oilseeds board (ONIGC) stated that the EU goal of 10 percent renewable energy share by 2020 could be reached with input from both first- and second-generation biofuels.

Tax Rebate for Biofuels: Past and Future

To develop the biofuel industry, the French government established tax rebates for biodiesel and bioethanol relative to diesel and gasoline, with the tax preference rate revised annually. Only plants officially approved by the GOF through a bidding process qualify, up to total quantities of biodiesel and bioethanol eligible for favorable tax rates set every year through 2010 (see reports [FR8012](#) and [E48063](#)). The tax rebates have been reduced as follows over the past few years (in euros per hectoliter):

Year	Biodiesel	Bioethanol
2003	35	38
2004	33	37
2005	33	38
2006	25	33
2007	25	33
2008	22	27

The 2009 budget bill prepared by the French Minister of Finance and the bill voted on by the National Assembly on October 23 propose the tax rebates (in euros per hectoliter) be reduced to the following levels:

Year	Original Budget Bill			Bill Voted on by the National Assembly	
	Biodiesel		Bioethanol	Biodiesel	Bioethanol
	(A)	(B)			
2009	13.5	17	17	15	21
2010	10	15	15	11	18
2011	6	11	11	8	14
2012	0	0	0		

- (A) Vegetable oil **methyl** ester (currently representing the bulk of French production), animal oil methyl ester (no commercial production until 2007), and chemically synthesized biodiesel (not yet commercially produced in France).
- (B) Vegetable oil ethyl ester (not yet commercially produced in France): the chemical processing of vegetable oil **ethyl** ester requires vegetable oil and **ethanol** (which can be bioethanol), while the chemical processing of vegetable/animal oil **methyl** ester requires vegetable oils and **methanol**, which is of fossil origin.

On the original bill, the French crop growers organization (ORAMA) commented that the budget bill provisions on biofuels are “incomprehensible and unacceptable.” For its part, the French biofuel industry stated that the proposed reduction in tax rebates on biofuels will result in higher taxes on biofuels than on fossil fuels. They considered that bioethanol would be subject to 50 percent higher taxes than gasoline by 2012. The industry believes that this tax structure would increase France’s demand for imported biofuels, particularly bioethanol from Brazil.

On the bill voted on by the National Assembly, the French ethanol industry commented that they can “more calmly consider the future” with such provisions.

Other Policy Measures for Biofuels

Incorporation Target

The second type of fiscal incentive biofuels benefit from in France remains unchanged in the proposed 2009 budget bill. Fuel blending companies receive favorable tax treatment on a limited quantity of biofuel blended at a targeted incorporation rate set by the French government annually (from 5.75 percent in 2008 to 6.25 percent in 2009 and 7 percent in 2010).

The French Prime Minister recently confirmed the 7 percent incorporation objective. However, he said that second-generation products will need to have an increasing share of the fiscal benefits biofuels get relative to first-generation products.

The French Agency for Environment and Energy Control (ADEME) published a report in September in which it recommends reaching but not exceeding the 7 percent target by 2010 for biofuels processed from food-crops. ADEME estimated the acreage corresponding to this percentage at 1.5 million ha of oilseeds, 220,000 ha of grains, and 40,000 ha of sugarbeets. In this report, ADEME posited that the industrial development of second-generation biofuels is very unlikely before 2015.

Flex-Fuel Vehicles

The French President recently extended a bonus/penalty system currently in place to 2009 and to flex-fuel cars running on E-85. Under this system, an additional sales tax is imposed on highly polluting cars while “environmental friendly” cars purchases are eligible for a tax rebate. Surprisingly, flex-fuel vehicles have not benefitted from any “bonus” under the 2008 bonus/penalty system, which has significantly limited their development.

Second-Generation Biofuels

Perspectives

In September, the French grains and oilseeds board (ONIGC) published a report on development perspectives for biofuels. They consider that, while second generation biofuels will be part of the renewable energies to meet the EU objective of 10 percent by 2020, first-generation biofuels would still represent a significant part of total EU production of biofuels in 2020.

French R&D Project

On September 11, the Futurol second generation biofuel research and development project (announced in [FR8012](#)), was officially launched. Futurol's objectives are to develop a process:

- producing bioethanol at a competitive price from a wide range of sources of cellulosic biomass (including farm waste and by-products, forestry biomass, dedicated crops),
- developing cellulose-extracting technologies, select enzymes and yeasts and elaborate hydrolysis and fermentation processes adapted to each category of raw material, and
- obtaining the best energy balance and greenhouse gas balance possible.

Futurol has a total budget of 74 million euros budget covering 8 years, funded by public subsidies (33 percent) and by project stakeholders (66 percent). These consist of 11 scientific R&D (private and public), industrial companies (in agriculture, forestry and energy group), and financial institutions (a bank, a capital-investment entity, and sugarbeet growers).

Futurol is projected to enter into force in three main steps: a pilot project (with a annual capacity of 180,000 liters of ethanol) will be built in fall 2008; a prototype (3.5 million liters per year) will validate the pilot project in 2013; and the process will be industrially and commercially developed, possibly by 2015-2020.

Related reports from FAS/Paris and USEU Brussels:

Report Number	Country	Title	Date Released
FR8012	France	Biofuels Update	7/18/2008
E48363	EU-27	Biofuels Annual	5/30/2008
These reports can be accessed through the FAS website http://www.fas.usda.gov/scripts/attacherep/default.asp .			